

**A. 15**

UNITED STATES BANKRUPTCY COURT

SOUTHERN DISTRICT OF NEW YORK

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In Re:

Chapter 11

LEHMAN BROTHERS Case No. 08-13555 (JMP)  
HOLDINGS, INC., et al, (Jointly Administered)  
Debtors.

-----X  
\* \* \*HIGHLY CONFIDENTIAL\* \* \*

DEPOSITION OF STEPHEN KING

New York, New York

September 10, 2009

Reported by:

MARY F. BOWMAN, RPR, CRR

JOB NO. 24299

Page 2	Page 3
<p>1 2 3 4 5 September 10, 2009 6 9:35 a.m. 7 8 9 Deposition of STEPHEN KING held at 10 the offices of Jones Day, LLP, 222 East 41st 11 Street, New York, New York, before Mary F. 12 Bowman, a Registered Professional Reporter, 13 Certified Realtime Reporter, and Notary Public 14 of the State of New York. 15 16 17 18 19 20 21 22 23 24 25</p>	<p>1 2 APPEARANCES: 3 JONES DAY, LLP 4 Attorneys for Lehman Brothers, Inc. 5 222 East 41st Street 6 New York, New York 10017-6702 7 BY: WILLIAM HINE, ESQ. 8 GEORGE E. SPENCER, ESQ. 9 10 BOIES, SCHILLER &amp; FLEXNER, LLP 11 Attorneys for Barclays and The Witness 12 575 Lexington Avenue 13 New York, New York 10022 14 BY: JACK STERN, ESQ. 15 16 QUINN, EMANUEL, URQUHART, OLIVER &amp; HEDGES, LLP 17 Attorneys for the Creditors Committee 18 51 Madison Avenue 19 New York, New York 10010 20 BY: ROBERT K. DAKIS, ESQ. 21 22 23 24 25</p>
Page 4	Page 5
<p>1 2 APPEARANCES: 3 4 JENNER &amp; BLOCK, LLC 5 Attorneys for the Examiner 6 330 N. Wabash Avenue 7 Chicago, Illinois 60611-7603 8 BY: DAVID C. LAYDEN, ESQ. 9 10 HUGHES, HUBBARD &amp; REED, LLP 11 Attorneys for the SIPA Trustee 12 One Battery Park Plaza 13 New York, New York 10004-1482 14 BY: NEIL J. OXFORD, ESQ. 15 FARA TABATABAI, ESQ. 16 17 Also Present: 18 INGRID M. CHRISTIAN, Alvarez &amp; Marsal 19 20 21 22 23 24 25</p>	<p>1 2 3 4 5 IT IS HEREBY STIPULATED AND AGREED, by 6 and between the attorneys for the respective 7 parties herein, that filing and sealing be 8 and the same are hereby waived. 9 IT IS FURTHER STIPULATED AND AGREED 10 that all objections, except as to the form 11 of the question, shall be reserved to the 12 time of the trial. 13 14 15 IT IS FURTHER STIPULATED AND AGREED 16 that the within deposition may be sworn to 17 and signed before any officer authorized to 18 administer an oath, with the same force and 19 effect as if signed and sworn to before the 20 Court. 21 22 23 24 25</p>

<div>Page 6</div> <div>1 KING - HIGHLY-CONFIDENTIAL</div> <div>REDACTED</div>	<div>Page 7</div> <div>1 KING - HIGHLY-CONFIDENTIAL</div> <div>REDACTED</div>
<div>Page 8</div> <div>1 KING - HIGHLY-CONFIDENTIAL</div> <div>REDACTED</div>	<div>Page 9</div> <div>1 KING - HIGHLY-CONFIDENTIAL</div> <div>REDACTED</div>

<div>Page 10</div> <div>1 KING - HIGHLY-CONFIDENTIAL</div> <div>REDACTED</div>	<div>Page 11</div> <div>1 KING - HIGHLY-CONFIDENTIAL</div> <div>REDACTED</div>
<div>Page 12</div> <div>1 KING - HIGHLY-CONFIDENTIAL</div> <div>REDACTED</div>	<div>Page 13</div> <div>1 KING - HIGHLY-CONFIDENTIAL</div> <div>REDACTED</div>

<p>Page 14</p> <p>1 KING - HIGHLY-CONFIDENTIAL</p> <p>REDACTED</p>	<p>Page 15</p> <p>1 KING - HIGHLY-CONFIDENTIAL</p> <p>REDACTED</p>
<p>Page 16</p> <p>1 KING - HIGHLY-CONFIDENTIAL</p> <p>REDACTED</p>	<p>Page 17</p> <p>1 KING - HIGHLY-CONFIDENTIAL</p> <p>REDACTED</p> <p>20 Q. So you participated in meetings with 21 Lehman folks during that weekend? 22 A. I don't know whether we did by that 23 weekend. That was really -- I thought that was -- 24 I thought in the lead up to that week, there was a 25 data room that was set up by Lehman. I never went</p>

<p style="text-align: right;">Page 18</p> <p>1 KING - HIGHLY-CONFIDENTIAL</p> <p>2 to it actually, but one of the people that works</p> <p>3 for me did.</p> <p>4 I would have been at Lehman over the</p> <p>5 weekend, but most of what we did was phone calls</p> <p>6 to people and -- I mean in reality, there is a --</p> <p>7 it is a -- there were many, many -- this was a</p> <p>8 phenomenally complex situation just because of the</p> <p>9 number of line items. So in many respects, the</p> <p>10 approach that we took to the analysis was high</p> <p>11 level down rather than bottom up, meaning to have</p> <p>12 accurately assessed the value of an individual</p> <p>13 security by reference to talking to a trader when</p> <p>14 there were then, say, 10,000 line items was less</p> <p>15 useful than being able to initially categorize</p> <p>16 things as residential mortgage-backed securities,</p> <p>17 credit card securities, et cetera, et cetera,</p> <p>18 subordinate, senior, and then have broad</p> <p>19 valuations based on where we know similar markets</p> <p>20 trade, and then each day we just refined.</p> <p>21 Q. OK, I think I understood what you</p> <p>22 said. When you said bottom up, you mean if you</p> <p>23 had the luxury of time, you -- one might go CUSIP</p> <p>24 by CUSIP or security by security and try to assess</p> <p>25 the value of an individual security?</p>	<p style="text-align: right;">Page 19</p> <p>1 KING - HIGHLY-CONFIDENTIAL</p> <p>2 A. Right, right.</p> <p>3 Q. But you didn't have the luxury of</p> <p>4 time. Is that what I hear you saying?</p> <p>5 A. Luxury of time and even time -- then</p> <p>6 markets are actually moving, so I would have to</p> <p>7 be -- if you had infinite resources for a very</p> <p>8 short period of time, then you might try to go</p> <p>9 bottom up.</p> <p>10 As -- once we had a definitive set --</p> <p>11 it was really -- so the first exercise was -- and</p> <p>12 this was repeated as we went through the 15th,</p> <p>13 through the various iterations of the asset</p> <p>14 population, was one, do we have a complete</p> <p>15 description of the population, can we categorize</p> <p>16 the population, can we estimate valuations for the</p> <p>17 categories within the population, can we refine</p> <p>18 and improve those estimates, increasingly becoming</p> <p>19 more granular. Have we engaged the appropriate</p> <p>20 desks, trading desks within Barclays to -- or</p> <p>21 existing Lehman desks, to provide us as much input</p> <p>22 to where markets are or what securities -- what a</p> <p>23 particular security is.</p> <p>24 And then the last part was how do we</p> <p>25 risk -- what is the risk associated with these</p>
<p style="text-align: right;">Page 20</p> <p>1 KING - HIGHLY-CONFIDENTIAL</p> <p>2 categories of securities and how might we either</p> <p>3 plan to dispose of the assets or in the short term</p> <p>4 risk manage the assets.</p> <p style="text-align: center; font-weight: bold; font-size: 1.2em;">REDACTED</p>	<p style="text-align: right;">Page 21</p> <p>1 KING - HIGHLY-CONFIDENTIAL</p> <p style="text-align: center; font-weight: bold; font-size: 1.2em;">REDACTED</p>

<div>Page 22</div> <div>1 KING - HIGHLY-CONFIDENTIAL</div> <div>REDACTED</div>	<div>Page 23</div> <div>1 KING - HIGHLY-CONFIDENTIAL</div> <div>REDACTED</div>
<div>Page 24</div> <div>1 KING - HIGHLY-CONFIDENTIAL</div> <div>REDACTED</div>	<div>Page 25</div> <div>1 KING - HIGHLY-CONFIDENTIAL</div> <div>REDACTED</div>

Page 26

1 KING - HIGHLY-CONFIDENTIAL

REDACTED

Page 27

1 KING - HIGHLY-CONFIDENTIAL

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6 Did you -- when you received the  
7 information from Lehman, it had some kind of book  
8 value ascribed to it by Lehman, correct?  
9 A. Yes.  
10 Q. Did you understand that by the time  
11 Barclays and Lehman signed an agreement, that  
12 there was going to be some kind of discount off of  
13 that book value for the pool of assets that  
14 Barclays was going to be acquiring?  
15 A. The signing of the agreement on the  
16 Tuesday that you have told me about?  
17 Q. Yes, yes.  
18 A. -- or later --  
19 Q. Yes.  
20 A. I don't know much -- I don't really  
21 know what agreement was reached on the 16th. All  
22 I know is that there was some assets that we were  
23 looking at. I would assume that it wouldn't have  
24 been at all a surprise to anybody that a bid, even  
25 a reasonable bid or reasonable assessment of a bid

Page 28

1 KING - HIGHLY-CONFIDENTIAL

2 for small size would be at a discount to book  
3 value if that's the valuation that you are  
4 referring to. Book value being where it is held  
5 in books and records.  
6 Q. Well, I guess I understand your  
7 answer, but do you have any recollection of  
8 discussions during that period of time -- and  
9 again I'm talking the 15th and 16th -- about  
10 either discounting or reducing the values that  
11 Lehman had ascribed to these pools of assets in  
12 order to come to an agreement as to the pool of  
13 assets or the marks for the pool of assets that  
14 Barclays was going to acquire?  
15 MR. STERN: This is you personally.  
16 A. This is me personally. I have never  
17 had any conversations with anybody at Lehman about  
18 discounting Lehman's marks. It is definitely the  
19 case that in the crudest -- if somebody said to  
20 me, Stephen, here is a security, you don't know  
21 what it is, but, you know, it is -- it has a  
22 price -- the last time it traded it had a price of  
23 50, let's say, mentally, I would say, well, I know  
24 it is not -- I certainly wouldn't be bidding 50.  
25 I would be bidding half of that or 20 percent of

Page 29

1 KING - HIGHLY-CONFIDENTIAL

2 that or 80 percent of that or some number.  
3 So it is definitely the case that when  
4 we were trying to guess what might be a reasonable  
5 value, in a very, very distressed market --  
6 Q. Sure.  
7 A. A very, very distressed market for a  
8 very, very substantial number of assets that  
9 Barclays would want to be selling, and Barclays  
10 didn't -- bear in mind, Barclays didn't want these  
11 assets. The assets were -- you wouldn't want to  
12 hold on to them. They consume capital. They need  
13 to be funded. Funding was expensive, capital was  
14 expensive.  
15 The assets were part of, you know, a  
16 deal, and therefore, they would -- and, you know,  
17 the -- I avoided the word "hedging" when you used  
18 hedging because hedging doesn't really -- hedging  
19 still means there is a left-over risk. You never  
20 really -- especially with assets like this.  
21 Hedging is just, well, I have got one thing that  
22 I'm short against something I am long. It is not  
23 very well hedged, there is still a risk, and  
24 that's why banks and hedge funds have had quite a  
25 lot of difficulty in the last few months.

<p style="text-align: right;">Page 30</p> <p>1 KING - HIGHLY-CONFIDENTIAL</p> <p>2 So we knew that the objective would be</p> <p>3 that we need to dispose of this risk. That was</p> <p>4 the objective. So if I was looking at a portfolio</p> <p>5 of assets, and you held the assets at 100, let's</p> <p>6 say, I'd say I don't know -- and I felt</p> <p>7 comfortable that I understand what the assets are,</p> <p>8 my bet is I couldn't sell those for more than</p> <p>9 80 cents of where you have currently ascribed a</p> <p>10 value to them.</p> <p>11 So yes, when we -- as a desk, the "we"</p> <p>12 meaning my group, one of the first things that we</p> <p>13 did was say, let's just assume that the stuff we</p> <p>14 don't know is at 50 percent of book value. The</p> <p>15 stuff that is exchange traded equities is at</p> <p>16 95 percent of where it is, because that was a --</p> <p>17 the crudest form of guess.</p> <p>18 Q. Is that the type of analysis you were</p> <p>19 doing on the 15th and 16th when you described -- I</p> <p>20 think you previously talked about a top-down</p> <p>21 approach as opposed to bottom up?</p> <p>22 A. Yes. Because you do that -- really if</p> <p>23 you think about it, you repeatedly do that same</p> <p>24 process at an ever-more granular level. Even if</p> <p>25 you got down to an individual security, a trader</p>	<p style="text-align: right;">Page 31</p> <p>1 KING - HIGHLY-CONFIDENTIAL</p> <p>2 would say I've projected -- the thing about some</p> <p>3 of these securities and assets is, unlike -- not</p> <p>4 all of them but some of them, and certainly the</p> <p>5 ones that we would have been looking at at this</p> <p>6 time, they are not -- even though many of them are</p> <p>7 called fixed income or debt instruments, the</p> <p>8 amount of cash that they would be expected to</p> <p>9 ultimately pay is actually uncertain, either</p> <p>10 because there is a lot of risk associated with the</p> <p>11 borrower or there is a prepayment risk or there is</p> <p>12 something that makes the cash flow uncertain.</p> <p>13 So the way a trader would look at it</p> <p>14 is to say, I'll make a -- I'll form a view of how</p> <p>15 much cash that I would want -- that I expect to</p> <p>16 receive on this security, and then I would want to</p> <p>17 discount the amount of cash back to some price</p> <p>18 that I felt that I was earning an appropriate</p> <p>19 yield on. And then when a trader was then</p> <p>20 subsequently bidding, they then may provide --</p> <p>21 say, actually I'll bid 80 percent of that.</p> <p>22 So whether it is at the portfolio</p> <p>23 level, when we are looking at a whole balance</p> <p>24 sheet, or an individual CUSIP, in many respects</p> <p>25 the process is the same. It is about how</p>
<p style="text-align: right;">Page 32</p> <p>1 KING - HIGHLY-CONFIDENTIAL</p> <p>2 confident you can be that you have assessed</p> <p>3 everything correctly, because there is so much</p> <p>4 uncertainty.</p> <p style="text-align: center;">REDACTED</p>	<p style="text-align: right;">Page 33</p> <p>1 KING - HIGHLY-CONFIDENTIAL</p> <p style="text-align: center;">REDACTED</p>

PAGES 34 – 53 REDACTED

<p>Page 54</p> <p>1 KING - HIGHLY-CONFIDENTIAL</p> <p>REDACTED</p>	<p>Page 55</p> <p>1 KING - HIGHLY-CONFIDENTIAL</p> <p>REDACTED</p>
<p>Page 56</p> <p>1 KING - HIGHLY-CONFIDENTIAL</p> <p>REDACTED</p> <p>16 Q. So if there was, you don't recall 17 seeing them? 18 A. No. If they -- you know, and as you 19 said, sort of towards the -- sometime between the 20 16th and 18th, our focus changed totally to the 21 securities that were just in the Fed facility.</p>	<p>Page 57</p> <p>1 KING - HIGHLY-CONFIDENTIAL</p> <p>REDACTED</p>

PAGES 58 – 65 REDACTED

<p>Page 66</p> <p>1 KING - HIGHLY-CONFIDENTIAL</p> <p>REDACTED</p>	<p>Page 67</p> <p>1 KING - HIGHLY-CONFIDENTIAL</p> <p>REDACTED</p>
<p>Page 68</p> <p>1 KING - HIGHLY-CONFIDENTIAL</p> <p>REDACTED</p> <p>9 Q. OK. Well, tell me then why this all 10 became relevant. I assume you are talking about 11 in the Wednesday-Thursday time frame? 12 A. Yeah, at the point that we started to 13 be asked to focus on the securities that were 14 collateralizing the Fed repo facility. 15 Q. And what were you told in that regard? 16 A. That here is a population of 17 securities that is collateralizing a loan that was 18 provided to LBI by the Fed, and we were being -- 19 we, Barclays was being asked to step into the 20 position of the Fed. I don't know -- I wasn't 21 part of the discussions as to why that would be 22 the case or whether it -- or how it had come about 23 or whether we would do it. 24 My group was then asked once again to 25 provide an assessment of the probable value or --</p>	<p>Page 69</p> <p>1 KING - HIGHLY-CONFIDENTIAL</p> <p>2 not just even the value actually. What was in the 3 Fed facility. 4 Q. And who told you -- who told you all 5 this? Who gave you these instructions? 6 A. The instructions to start to do that 7 work? 8 Q. Yeah. 9 A. I think, I think it was Mike at the 10 time asked us to look at it. 11 Q. Mike who? 12 A. Keegan. 13 Q. And did you -- you understand that 14 there was a repo transaction entered into on 15 September 18 involving Barclays and Lehman, 16 correct? 17 A. Yes. 18 Q. That's the Thursday? 19 A. Yes. 20 Q. And so was this assessment you were 21 asked to do prior to that repo transaction or 22 was -- were you assessing the securities that had 23 been posted into that repo transaction? 24 A. Both. 25 Q. So am I correct -- I assume the</p>

<p style="text-align: right;">Page 70</p> <p>1 KING - HIGHLY-CONFIDENTIAL</p> <p>2 securities that were -- supported the Fed repo</p> <p>3 earlier in the week were somehow supposed to make</p> <p>4 their way into the September 18 repo involving</p> <p>5 Barclays and Lehman, correct?</p> <p>6 A. Yes.</p> <p>7 Q. So you were asked to assess both the</p> <p>8 Fed pool of securities and then what ultimately</p> <p>9 made it into the repo?</p> <p>10 A. That's correct, yes.</p> <p>11 Q. And did you come to any conclusions</p> <p>12 after that assessment?</p> <p>13 A. Yes, the same -- we did the same</p> <p>14 process that we had done on each of the previous</p> <p>15 iterations. We were able to reuse some of the</p> <p>16 information because there was an overlap between</p> <p>17 the list of securities that were in the Fed</p> <p>18 facility, ostensibly, the Fed facility and also on</p> <p>19 the balance sheet of LBI.</p> <p>20 We had -- I thought it was on the</p> <p>21 Wednesday, we were -- I thought it was on the</p> <p>22 Wednesday, not the Thursday, we were first asked</p> <p>23 to look at it, which is why I say about the</p> <p>24 Wednesday we started to put our pens down on what</p> <p>25 we were doing previously, and I remember that we</p>	<p style="text-align: right;">Page 71</p> <p>1 KING - HIGHLY-CONFIDENTIAL</p> <p>2 had literally something like about an hour or hour</p> <p>3 and a half when we were first asked to look at it</p> <p>4 to -- and the population was 49 or so billion</p> <p>5 dollars of assets, and the question was, Stephen,</p> <p>6 what do you think these are worth?</p> <p style="text-align: center; font-weight: bold; font-size: 1.2em;">REDACTED</p>
<p style="text-align: right;">Page 72</p> <p>1 KING - HIGHLY-CONFIDENTIAL</p> <p style="text-align: center; font-weight: bold; font-size: 1.2em;">REDACTED</p> <p>25 Q. Well, I think you said previously you</p>	<p style="text-align: right;">Page 73</p> <p>1 KING - HIGHLY-CONFIDENTIAL</p> <p>2 were asked -- you mentioned a close to 50 billion</p> <p>3 dollar number.</p> <p>4 A. Yeah.</p> <p>5 Q. I still don't know that you answered.</p> <p>6 Is that the Fed pool or is that the collateral</p> <p>7 that was ultimately posted to the September 18</p> <p>8 repo?</p> <p>9 A. There I am describing what we were</p> <p>10 doing prior to the settlement, which was to</p> <p>11 provide -- the question that had been asked to us</p> <p>12 is, there is a Fed facility, I seem to remember it</p> <p>13 was 45 billion dollars, and it is backed by</p> <p>14 securities which have a value -- which I think</p> <p>15 subsequently or around that time we found was not</p> <p>16 of course -- it is neither a Barclays assessment</p> <p>17 of value or Lehman assessment of value, it is a JP</p> <p>18 as custodian for the securities assessment of</p> <p>19 value. Not a trader's value, so not a mark, just</p> <p>20 a -- you know, a price, a matrix price or wherever</p> <p>21 they got their prices from, assessment of how much</p> <p>22 collateral was supposedly supporting the Fed</p> <p>23 facility, and the Fed facility was sized by</p> <p>24 reference to haircuts to that assumed value.</p> <p>25 So we were then asked to say, well, do</p>

Page 74

1 KING - HIGHLY-CONFIDENTIAL  
2 we think that if you had to liquidate this  
3 portfolio, that you could recover the amount of  
4 the loan that was being made.

REDACTED

Page 75

1 KING - HIGHLY-CONFIDENTIAL  
2 half. So that may just have been because we  
3 didn't have a night.

4 Q. I appreciate that, for all of us who  
5 have missed nights as well.

6 So is this -- when you said you had  
7 about an hour and a half or two --

8 A. We had an hour and a half. There was  
9 a phone call to say we are being asked to take the  
10 Fed out of this. We didn't know the reason why or  
11 reason for the transaction or whether it was even  
12 necessarily related to it.

13 MR. STERN: "We" being you?

14 A. "We" being Barclays at that point.  
15 That Barclays was being asked to take the Fed out  
16 of its facility, out of this loan, and the  
17 question to us as my group was, what do you think  
18 about this value of securities?

19 Q. And what did --

20 A. And I found that an extraordinary  
21 situation, because we had just had the bankruptcy  
22 of Lehman and we were being asked whether or not  
23 we thought a portfolio of securities, which we  
24 barely knew, because we had only really  
25 encountered them a handful of days before, it was

Page 76

1 KING - HIGHLY-CONFIDENTIAL  
2 actually worth 45 billion dollars, and therefore,  
3 should we permit Barclays to lend 45 billion  
4 dollars against a portfolio of securities, and in  
5 any normal circumstances I would never make that  
6 statement or assertion.

7 Q. When you say 45, that's the amount of  
8 the Fed facility?

9 A. That's the amount I remember being the  
10 Fed facility.

11 Q. Secured by -- 45 was the value of the  
12 pool in the Fed, to your recollection, or was that  
13 the amount that the Fed --

14 A. That was the loan amount.

15 Q. And the value or purported value in  
16 the pool was about 5 billion more than that?

17 A. Well, you are using -- you are saying  
18 "value" as if that was value.

19 Q. OK.

20 A. The numbers that were the JP Morgan  
21 marks I think at some date, and I don't remember  
22 which date it was, they may have even been from  
23 the Monday or Tuesday or Wednesday, I don't  
24 remember how current they were. Markets were that  
25 volatile, but that they -- those numbers added up

Page 77

1 KING - HIGHLY-CONFIDENTIAL  
2 to -- I remember it being anything from 48 and a  
3 half to 49, to 49.7. There was some -- if you add  
4 up those numbers, it would appear that if it were  
5 possible, if it were possible to sell into the  
6 open market at those JP Morgan marks, then you  
7 would get 49 point or 48 point whatever it is for  
8 the portfolio.

9 Of course that's not a -- that's not a  
10 value.

11 Q. OK. But -- I understand that. I  
12 didn't mean to misuse that word.

13 So what did you conclude as to the --  
14 what did you respond to the people who had asked  
15 you to make this assessment?

16 A. We thought it was possible that in a  
17 controlled way, we might be able to recover enough  
18 to cover the loan.

19 Q. Meaning the 45 number?

20 A. Meaning the 45.

REDACTED

<p style="text-align: right;">Page 78</p> <p>1 KING - HIGHLY-CONFIDENTIAL</p> <p style="text-align: center; font-size: 2em; font-weight: bold;">REDACTED</p> <p>22 Q. Can you specify "this transaction"? 23 A. The Fed transaction. 24 The peculiarity of this, and we didn't 25 really understand this at the beginning, but it</p>	<p style="text-align: right;">Page 79</p> <p>1 KING - HIGHLY-CONFIDENTIAL</p> <p>2 became clear, is, of course, the normal 3 circumstances, a repo transaction shouldn't mean 4 that the lender on the loan is long the underlying 5 risk of the securities collateralizing the loan. 6 They have a secured lending to a borrower that's 7 collateralized.</p> <p>8 Here, of course, we knew that we were 9 lending to a borrower that was expected to be 10 bankrupt within a short period of time, and whose 11 parent was bankrupt. Therefore, although it was a 12 loan to a counterparty, at some point we were 13 going to be long the underlying assets.</p> <p>14 And if we were long the underlying 15 assets, we therefore needed to risk manage them. 16 Because just because we had assessed that as of 17 the Thursday they were worth some amount, 18 hopefully more than 45 billion dollars, by the 19 Monday, they might have been worth 35 billion 20 dollars.</p> <p>21 Q. Right. 22 A. So we better do something about that. 23 So the focus started to move from how do we 24 manage, how do we even see and book -- how do we 25 book securities that are not just going to be</p>
<p style="text-align: right;">Page 80</p> <p>1 KING - HIGHLY-CONFIDENTIAL</p> <p>2 collateral for a repo but are effectively going to 3 need to be shadow booked into risk systems so that 4 we can generate appropriate risk metrics so that 5 we can risk manage them. So we -- our process 6 started to change to that.</p> <p>7 Q. And this started even before you 8 booked the September 18 --</p> <p>9 A. Yes, yes.</p> <p>10 Q. -- repo?</p> <p>11 A. Yes. Because we had to say how are we 12 going to manage this transaction? How are we 13 going to manage this risk once Barclays has 14 lent -- once Barclays has lent -- in Barclays' 15 book, it is going to have -- the repo desk seems 16 to have lent 45 billion dollars to a counterparty 17 that is going to default, and that is 18 collateralized with a number of securities.</p> <p>19 And if it followed its normal process, 20 it would be marking those securities, asking 21 desks, asking price services to -- it wouldn't 22 actually be assuming that it was going to get long 23 the collateral and have to liquidate it.</p> <p>24 But here we knew that was going to be 25 the case, and it is mostly the case in other</p>	<p style="text-align: right;">Page 81</p> <p>1 KING - HIGHLY-CONFIDENTIAL</p> <p>2 distressed -- it is frequently the case, and we 3 have obviously seen this because of what happened 4 with Bear and Bear's hedge funds that had 5 defaulted on repo-secured lending, that the moment 6 the repo -- the borrower defaults under the repo, 7 you seek to liquidate the collateral, and you 8 invariably don't recover enough to cover the loan. 9 You hope you are going to, but markets are 10 distressed at that moment.</p> <p>11 Well, this was the mother of all 12 distress. We are in the middle of a bank, a major 13 bank defaulting that many people had thought 14 wouldn't have been left to default, but had 15 defaulted, and we were about to undertake a 16 45 billion dollar lending in which we would be 17 long this risk with very limited ways of risk 18 managing it.</p> <p>19 Q. So what did you do to risk manage it? 20 A. Well, so Thursday we had to assess how 21 are we going to record in our books securities, 22 when we haven't actually booked the securities, we 23 booked a repo facility. So we had to construct 24 shadow books that were going to represent the risk 25 of the securities that were in the repo facility,</p>

Page 82

1 KING - HIGHLY-CONFIDENTIAL  
2 and then we sought to insure that -- our plan was  
3 on the Thursday, each of the desks had a list of  
4 the securities that they were expecting to  
5 receive, and we had informed them that of course  
6 repo is -- this was overnight repo. We weren't  
7 but -- a week earlier, by the way, we were not  
8 experts in repo. So some of what I am able to  
9 talk about now about that repo facility, I  
10 actually only learned afterwards.

11 But this was overnight repo, which  
12 meant that strictly speaking the borrower could  
13 switch the collateral within the repo facility  
14 each night. So we had advised the respective  
15 desks, thinking about, you know, in a similar way  
16 we categorized the assets that were in the repo  
17 facility in a similar way to the way they are  
18 categorized on 388-B, and we passed those out to  
19 the relevant desks and said tomorrow, you are  
20 going to be -- we need you to help us manage this  
21 exposure.

22 And we sent lists to each of the  
23 desks. Of course -- but we told them they may  
24 marginally change overnight, and until we are  
25 certainly long the risk, we can't hedge. We

Page 84

1 KING - HIGHLY-CONFIDENTIAL  
2 replace the Fed, thereby knowing for certain that  
3 it had a secured loan out to Lehman, LBI, where  
4 LBI was expected to default.

5 So it is not until for certain that  
6 Barclays has funded that loan that it could say  
7 that it definitely is long the risk of the  
8 underlying securities.

9 Q. OK. So if --

10 A. So for example -- maybe it is easiest  
11 by example. If we took a single security on the  
12 Thursday, in normal trading, in a normal trading  
13 environment, I might be negotiating with a  
14 counterparty to buy something and I might be  
15 agreeing the price and we might be trading, but --  
16 and I might know that the moment that I want to --  
17 moment that I know I am going to be long the  
18 security, I will need to hedge, and I have worked  
19 out how I am going to hedge, but until the trader  
20 tells me done, not just at some point while we are  
21 discussing the price, if I decide to hedge before  
22 he says done and then he says, you know what,  
23 change my mind, now I have put a hedge on against  
24 nothing and I have got to take the hedge off.

25 So until we know that this repo

Page 83

1 KING - HIGHLY-CONFIDENTIAL  
2 couldn't hedge prior because of course if for some  
3 reason the transaction hadn't settled, we would be  
4 short the market, so there was no way to hedge  
5 until we knew that we actually were long the risk.

6 Q. OK then. There was a lot there, so  
7 let me ask a couple of questions.

8 When you say we were certain we were  
9 long the risk, that would be when there was a  
10 default?

11 A. No. Once the securities had settled  
12 into Barclays.

13 Q. Oh.

14 A. Which would have been the Thursday  
15 night, Friday morning.

16 MR. STERN: You might just explain  
17 what you mean when you talk about long the  
18 risk and so on.

19 A. On Thursday, there was -- we knew that  
20 there was a Fed facility. Barclays had not lent  
21 any money to Lehman. The Fed had lent money to  
22 Lehman and collateralized that lending with  
23 securities.

24 Q. Right.

25 A. That night, Barclays would effectively

Page 85

1 KING - HIGHLY-CONFIDENTIAL  
2 transaction -- this replacement repo transaction  
3 has settled, it would be -- it was a trading  
4 decision whether or not we should hedge before it  
5 settles or after it settles. And we elected to  
6 start hedging after it settled.

7 Q. So when you say settles, that's on  
8 Thursday, the 18th?

9 A. Thursday night into Friday morning.

10 Q. So that -- OK, I think I understand  
11 that.

12 But aren't you -- I guess I didn't  
13 understand the shadow book concept. I thought you  
14 weren't long the security until LBI defaults on  
15 the Friday.

16 A. Formally -- exactly right. Until the  
17 Friday when there is the default of LBI, then the  
18 systems would record a secured lending facility.  
19 As I say, some of this, you know, back filling the  
20 knowledge because we learned how it really would  
21 happen after the fact.

22 Q. Sure.

23 A. But that there would be a loan and the  
24 repo desk would say, I have got a loan out to LBI  
25 and it is collateralized by the following

Page 86

1 KING - HIGHLY-CONFIDENTIAL  
2 securities, but it isn't equipped to hedge or  
3 manage those underlying securities because it is  
4 not expecting to ever need to. It thinks it has  
5 got an overcollateralized loan.  
6 Q. Right.  
7 A. Where it hopes -- where a repo desk  
8 risk management ought to be, I've lent you money,  
9 I have got some additional margin over and above  
10 the amount of money that you have lent, that I  
11 have lent you, and if you default, I am going to  
12 sell it all as quickly as possible. I am not  
13 going to reflect on it and think about whether I  
14 would like to -- those are trading decisions for  
15 someone else. I am going to sell it.  
16 And hence, when you try to sell  
17 something in that way, you would invariably,  
18 regardless of whether the last trade observed in  
19 the market was 95, if you phone up somebody and  
20 say I need a bid, you might get a 85, and that's  
21 why they need the margin. But that would be their  
22 normal repo risk management decision.  
23 Here we were going into this lending  
24 with the benefit of knowledge that within 24 hours  
25 to 48 hours, it would be the case that this

Page 88

1 KING - HIGHLY-CONFIDENTIAL  
2 index does this portfolio look like.  
3 Because we can't know -- we know there  
4 is no way we can sell. If we go out and start  
5 selling at 8 a.m. on the Friday morning, five days  
6 after the bankruptcy of Lehman, we would  
7 recover -- I don't know what we would recover.  
8 And we already knew that where we had  
9 seen some of the bids in the market during that  
10 week where other people have been selling -- bear  
11 in mind, the market was flooded with collateral  
12 from the bankrupt Lehman Brothers Holding and  
13 LBIE, so that people were closing out other repo  
14 facilities. So the market was full of Barclays --  
15 of Lehman's securities that were already being  
16 sold. So -- and we were about to get long another  
17 45 billion dollars of them.  
18 So there would be no way for us to  
19 manage that. The only way we could do it was  
20 bring the risk on to our systems, assess how  
21 volatile it was going to be and what parts of that  
22 volatility we would have to hedge with instruments  
23 in more liquid markets. For example, S&P. For  
24 example, interest rate derivatives.  
25 And that's what we started to do on

Page 87

1 KING - HIGHLY-CONFIDENTIAL  
2 borrower would default, so that there was no value  
3 to the counterparty, and furthermore, we were  
4 therefore going to be long a humongous number of  
5 securities that we would have no ability to sell.  
6 Q. So for that reason you start risk  
7 managing those securities the minute the repo  
8 settles?  
9 A. First we say -- many of these  
10 securities have -- so the -- maybe again it is  
11 worth just touching on this for a second.  
12 When I talk about risk, what I mean is  
13 that what is the expected change in value of a  
14 security with respect to a change in something  
15 else. So many of the securities have interest  
16 rate sensitivity.  
17 Q. Right.  
18 A. How much would the value of these  
19 bonds change if the interest rates went up.  
20 Q. OK.  
21 A. We would also come up with some crude  
22 estimates for, say, the equities portfolio, which  
23 would be how much of the S&P 500 does this equity  
24 portfolio look like. For the RMBS securities we  
25 might say how much of a particular mortgage-backed

Page 89

1 KING - HIGHLY-CONFIDENTIAL  
2 the Thursday in anticipation, what systems are we  
3 going to need to help manage that and what are we  
4 going to do on the Friday. Of course, that was  
5 complicated, further complicated by the fact on  
6 the Friday morning we woke up to discover we don't  
7 own the same portfolio we thought we were going to  
8 own a day earlier.  
9 Q. OK. Let me put that issue aside for a  
10 minute here. I think I followed you. It is an  
11 area that I am not familiar with, so I apologize.  
12 So on Thursday, you are risk managing  
13 or hedging the volatility that you foresee in that  
14 pool of securities as a result of all this market  
15 activity that you have seen? The plan was to  
16 hedge the portion you needed to hedge and then  
17 sell the securities later?  
18 A. Yeah. So I think the answer to your  
19 question is actually no, we were not hedging on  
20 the Thursday. We were starting to work out  
21 that -- the process up to the decision of will  
22 Barclays lend against this pool of assets was one  
23 that would incorporate both an assessment of  
24 Barclays' assessment, not JP's assessment or  
25 Lehman's assessment or anybody else, but Barclays'

<p>Page 90</p> <p>1 KING - HIGHLY-CONFIDENTIAL</p> <p>2 traders' assessment of what was the realizable</p> <p>3 value of the securities and the amount of -- it</p> <p>4 would need to have some amount of cushion over and</p> <p>5 above the amount that it would lend, because the</p> <p>6 moment that it started to sell, Barclays itself</p> <p>7 would drive the market down.</p> <p>8 Q. Right, right.</p> <p>9 A. So we needed to do two things on</p> <p>10 Wednesday and Thursday. One, an assessment of an</p> <p>11 estimate of what we thought was a reasonable</p> <p>12 liquidation value for the portfolio, and then,</p> <p>13 two, what was a reasonable guess at the risks that</p> <p>14 we were taking by being long that portfolio.</p> <p>15 That's what we were doing Thursday.</p> <p>16 On Friday then --</p> <p>17 MR. STERN: "That portfolio" is the</p> <p>18 Fed portfolio?</p> <p>19 A. For the portfolio we thought we were</p> <p>20 going to take delivery of, or best guess of the</p> <p>21 portfolio we thought we were going to take</p> <p>22 delivery of on the Friday.</p> <p>23 But it wasn't until -- and then we</p> <p>24 made a decision not to hedge on the Thursday. And</p> <p>25 then on the Friday, once we knew the transaction</p>	<p>Page 91</p> <p>1 KING - HIGHLY-CONFIDENTIAL</p> <p>2 had been consummated, so we knew that we were</p> <p>3 actually long --</p> <p>4 Q. That's Thursday night, Friday morning?</p> <p>5 A. So some point Thursday night, somebody</p> <p>6 would have phoned me and said, Stephen, we are</p> <p>7 long. So then we knew we had eliminated one risk,</p> <p>8 which was the execution risk.</p> <p>9 Q. Right, right.</p> <p>10 A. Because we couldn't -- the reason for</p> <p>11 not hedging was we could never manage -- never</p> <p>12 hedge the execution risk.</p> <p>13 Q. Right.</p> <p>14 A. But on Friday we now know we are long.</p> <p>15 Let's say that was at 2 o'clock in the morning or</p> <p>16 something. No markets are open, so there is no</p> <p>17 way to start selling or to manage -- actually we</p> <p>18 couldn't start selling because actually it is just</p> <p>19 a repo facility, it is not that we are long the</p> <p>20 assets, so you couldn't sell on the Friday.</p> <p>21 So therefore, we would have to think</p> <p>22 up things we could use to hedge the risk. And</p> <p>23 that's -- we started that process on Thursday. By</p> <p>24 Friday we started to realize there are securities</p> <p>25 that we thought we were going to take delivery of</p>
<p>Page 92</p> <p>1 KING - HIGHLY-CONFIDENTIAL</p> <p>2 that we haven't, and there were securities that we</p> <p>3 have never seen before.</p> <p>REDACTED</p>	<p>Page 93</p> <p>1 KING - HIGHLY-CONFIDENTIAL</p> <p>REDACTED</p>

<div>Page 94</div> <div>1 KING - HIGHLY-CONFIDENTIAL</div> <div>REDACTED</div>	<div>Page 95</div> <div>1 KING - HIGHLY-CONFIDENTIAL</div> <div>REDACTED</div>
<div>Page 96</div> <div>1 KING - HIGHLY-CONFIDENTIAL</div> <div>REDACTED</div>	<div>Page 97</div> <div>1 KING - HIGHLY-CONFIDENTIAL</div> <div>REDACTED</div>

<p style="text-align: right;">Page 98</p> <p>1 KING - HIGHLY-CONFIDENTIAL</p> <p style="text-align: center;">REDACTED</p>	<p style="text-align: right;">Page 99</p> <p>1 KING - HIGHLY-CONFIDENTIAL</p> <p style="text-align: center;">REDACTED</p> <p>14 Q. Are you coming to some interim 15 conclusions during that weekend about the marks? 16 A. Yes. 17 Q. And what are you finding out that 18 weekend? 19 A. I don't really -- the one thing that I 20 remember is saying that I felt that the cumulative 21 amount of securities and cash that we had received 22 in an orderly disposal, in not just a fire sale, 23 we couldn't just sell -- we couldn't say let's 24 sell these over the weekend and then we are done 25 by Monday.</p>
<p style="text-align: right;">Page 100</p> <p>1 KING - HIGHLY-CONFIDENTIAL</p> <p>2 The -- there was -- the loan was</p> <p>3 adequately collateralized. And that I remember.</p> <p>4 Q. And you told that to your supervisors</p> <p>5 or whoever was asking?</p> <p>6 A. Yes, yeah, yeah. And then on the</p> <p>7 Friday we started to hedge.</p> <p style="text-align: center;">REDACTED</p>	<p style="text-align: right;">Page 101</p> <p>1 KING - HIGHLY-CONFIDENTIAL</p> <p style="text-align: center;">REDACTED</p>

PAGES 102 – 165 REDACTED

<p style="text-align: right;">Page 166</p> <p>1 KING - HIGHLY-CONFIDENTIAL</p> <p style="text-align: center;">REDACTED</p>	<p style="text-align: right;">Page 167</p> <p>1 KING - HIGHLY-CONFIDENTIAL</p> <p style="text-align: center;">REDACTED</p> <p>21 Q. Can we skip ahead to the repo 22 transaction, which is the September 18 repo. 23 A. Yeah. 24 Q. Did Barclays provide a list of assets 25 that it wanted excluded from the repo or would not</p>
<p style="text-align: right;">Page 168</p> <p>1 KING - HIGHLY-CONFIDENTIAL</p> <p>2 accept as collateral in the repo?</p> <p>3 A. No. We didn't have any option on 4 the -- going into the -- we weren't -- "we" being 5 PMTG, weren't aware of any flexibility as to what 6 we were going to receive. That was part of the 7 problem, was we are going to take delivery of -- 8 remember you asked me the questions earlier about 9 what were you looking at, Steve, and I was 10 provided an inventory of securities on the 11 Wednesday, Thursday, that represented what I would 12 take delivery of.</p> <p>13 And then it did happen to change by 14 Friday, but that was not what we were expecting to 15 receive, that list of securities.</p> <p>16 Q. I am talking about before the Friday. 17 I'm talking about in the Wednesday, Tuesday, 18 whenever you are talking about the repo, were 19 there certain assets that Barclays would not 20 accept as collateral for that repo?</p> <p>21 A. No. I -- on the Wednesday -- so the 22 Wednesday or Thursday we are analyzing the repo, 23 we just assumed we were taking delivery of 24 whatever was described to us as being in the repo 25 on the Thursday.</p>	<p style="text-align: right;">Page 169</p> <p>1 KING - HIGHLY-CONFIDENTIAL</p> <p>2 Q. Described to you by who?</p> <p>3 A. In the schedule of securities 4 provided -- you asked me the question earlier as 5 to -- about a list of securities that was in the 6 repo, and I answered that I didn't know where it 7 came from, whether it was from operations or the 8 Fed or whoever, but somebody provided us a list of 9 securities on the Thursday, which is the list we 10 thought we would take delivery of. It wasn't the 11 list that we ultimately took delivery of, but it 12 was the list that we passed out to the various 13 traders.</p> <p>14 We didn't think that we had any option 15 to pick and choose.</p> <p>16 MR. STERN: Is that the list that you 17 referred to as having an hour and a half to 18 look at?</p> <p>19 THE WITNESS: The hour and a half to 20 look at, yes.</p> <p>21 Q. This might clarify the question. I am 22 going to hand you a document that was previously 23 marked as 143-B. It is an e-mail stream of which 24 you are not a party to until you get to page 2. 25 MR. STERN: Take a look at the whole</p>

Page 170

1 KING - HIGHLY-CONFIDENTIAL  
2 thing.  
3 Q. You can look at the whole thing. I am  
4 just directing your attention to an entry on  
5 page 2, which is an e-mail from you to David  
6 Petrie, and it attaches something called excluded  
7 mortgage assets.  
8 A. Right.  
9 Q. So take your time to look at the  
10 document, but my questions are going to be  
11 primarily about that attachment.  
12 A. OK.  
13 Q. Have you ever seen this document  
14 before?  
15 A. Yes.  
16 Q. Can you tell me what the attachment  
17 which is titled "Excluded Mortgage Assets 9/17/08"  
18 is?  
19 A. Yeah. It is from the 6.5 billion  
20 dollars of assets on the -- let me look here.  
21 Q. Is that the exhibit we first used in  
22 this --  
23 A. Yeah, I think so.  
24 Q. I think it is --  
25 A. 388-B.

Page 172

1 KING - HIGHLY-CONFIDENTIAL

**REDACTED**

Page 171

1 KING - HIGHLY-CONFIDENTIAL  
2 Q. The 6.6 billion in mortgage?  
3 A. Yeah. So once upon a time in the  
4 first part of the week, we had suggested that we  
5 wouldn't -- remember I said that we wouldn't take  
6 all of the mortgage and mortgage-backed total. So  
7 we divided it into two pools, the included and the  
8 excluded.  
9 So that e-mail from the 17th, unless I  
10 have made a mistake, it is an e-mail about the  
11 assets that we wouldn't be taking out of the  
12 mortgage and mortgage-backed securities.  
13 Q. So these are mortgages you are not  
14 going to take?  
15 A. These would be -- yes, that's the --  
16 well, it was -- in the early part of the week it  
17 was the list of securities which we were  
18 suggesting that we wouldn't take, "we" being my  
19 group, suggesting that we would rather not take  
20 out of the total mortgage and mortgage-backed  
21 total.  
22 Q. It is really nothing to do with the  
23 repo. It has to do with the agreement to only  
24 take a portion of the mortgage-related securities?  
25 A. That's correct.

Page 173

1 KING - HIGHLY-CONFIDENTIAL

**REDACTED**

PAGES 174 – 285 REDACTED

Page 286

1 KING - HIGHLY-CONFIDENTIAL

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Page 287

1 KING - HIGHLY-CONFIDENTIAL

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Page 288

KING - HIGHLY-CONFIDENTIAL

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(Time noted: 5:52 p.m.)

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STEPHEN KING

Subscribed and sworn to  
before me this day  
of September, 2009.

Page 289

1 KING - HIGHLY-CONFIDENTIAL

2 INDEX:

3 WITNESS EXAM BY: PAGE:

4 S. King Mr. Hine 6

5 Mr. Oxford 204

6 Mr. Dakis 283

7 Mr. Layden 285

8

9 EXHIBITS

10 Exhibit No. Marked

11 Exhibit 388-B Document Bates stamped 34

12 BCI-EX-S 74256 through 257

13 Exhibit 389-B Document Bates stamped 105

14 BCI-EX-S 75200 through 201

15 Exhibit 390-B Document Bates stamped 141

16 BCI-EX-S 52667 through 68 with

17 attachment

18 Exhibit 391-B Document Bates stamped 181

19 BCI-EX-S 136198

20 Exhibit 392-B E-mail dated Wednesday, 225

21 September 17, 2008 at 19:14:24

22 Exhibit 393-B E-mail dated Friday, 19 235

23 September 2008 at 00:57:45

24 Exhibit 394-B E-mail dated 9/19/2008 at 239

25 9:41 p.m. with attachment

Page 290	Page 291
<p>1 KING - HIGHLY-CONFIDENTIAL</p> <p>2 EXHIBITS</p> <p>3 Exhibit No. Marked</p> <p>4 Exhibit 395-B Document Bates stamped 255</p> <p>5 BCI-EX-S 57416 through 417</p> <p>6 Exhibit 396-B Document Bates stamped 260</p> <p>7 BCI-EX-S S8711 through 114</p> <p>8 Exhibit 397-B Document Bates stamped BCI 278</p> <p>9 EX-81185</p> <p>10</p> <p>11</p> <p>12</p> <p>13</p> <p>14</p> <p>15</p> <p>16</p> <p>17</p> <p>18</p> <p>19</p> <p>20</p> <p>21</p> <p>22</p> <p>23</p> <p>24</p> <p>25</p>	<p>1 KING - HIGHLY-CONFIDENTIAL</p> <p>2</p> <p>3</p> <p>4 CERTIFICATE</p> <p>5 STATE OF NEW YORK )</p> <p>6 )ss:</p> <p>7 COUNTY OF NEW YORK)</p> <p>8 I, MARY F. BOWMAN, a Registered</p> <p>9 Professional Reporter, Certified Realtime</p> <p>10 Reporter, and Notary Public within and for</p> <p>11 the State of New York, do hereby certify:</p> <p>12 That STEPHEN KING, the witness whose</p> <p>13 deposition is hereinbefore set forth, was</p> <p>14 duly sworn by me and that such deposition is</p> <p>15 a true record of the testimony given by such</p> <p>16 witness.</p> <p>17 I further certify that I am not</p> <p>18 related to any of the parties to this action</p> <p>19 by blood or marriage and that I am in no way</p> <p>20 interested in the outcome of this matter.</p> <p>21 In witness whereof, I have hereunto</p> <p>22 set my hand this 10th day of September,</p> <p>23 2009.</p> <p>24</p> <p>25</p>
Page 292	
<p>1 KING - HIGHLY-CONFIDENTIAL</p> <p>2 ***ERRATA SHEET***</p> <p>3 NAME OF CASE: In Re: Lehman</p> <p>4 DATE OF DEPOSITION: September 10, 2009</p> <p>5 NAME OF WITNESS: STEPHEN KING</p> <p>6 Reason codes:</p> <p>7 1. To clarify the record.</p> <p>8 2. To conform to the facts.</p> <p>9 3. To correct transcription errors.</p> <p>10 Page ____ Line ____ Reason____</p> <p>11 From _____ to _____</p> <p>12 Page ____ Line ____ Reason____</p> <p>13 From _____ to _____</p> <p>14 Page ____ Line ____ Reason____</p> <p>15 From _____ to _____</p> <p>16 Page ____ Line ____ Reason____</p> <p>17 From _____ to _____</p> <p>18 Page ____ Line ____ Reason____</p> <p>19 From _____ to _____</p> <p>20 Page ____ Line ____ Reason____</p> <p>21 From _____ to _____</p> <p>22 Page ____ Line ____ Reason____</p> <p>23 From _____ to _____</p> <p>24</p> <p>25</p>	